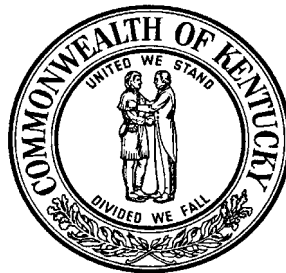


**REPORT OF THE AUDIT OF THE
MERCER COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES**

April 22, 2005



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable John D. Trisler, Mercer County Judge/Executive
Honorable Ralph Anderson, Mercer County Sheriff
Members of the Mercer County Fiscal Court

The enclosed report prepared by Tichenor & Associates, LLP, Certified Public Accountants, presents the Mercer County Sheriff's Settlement - 2004 Taxes as of April 22, 2005.

We engaged Tichenor & Associates, LLP, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Tichenor & Associates, LLP, evaluated the Mercer County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
MERCER COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES

April 22, 2005

Tichenor & Associates, LLP, has completed the audit of the Sheriff's Settlement - 2004 Taxes for Mercer County Sheriff as of April 22, 2005. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$6,744,105 for the districts for 2004 taxes, retaining commissions of \$267,347 to operate the Sheriff's office. The Sheriff distributed taxes of \$6,472,028 to the districts for 2004 Taxes.

Report Comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable John D. Trisler, Mercer County Judge/Executive

Honorable Ralph Anderson, Mercer County Sheriff

Members of the Mercer County Fiscal Court

Independent Auditor's Report

We have audited the Mercer County Sheriff's Settlement - 2004 Taxes as of April 22, 2005. This tax settlement is the responsibility of the Mercer County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Mercer County Sheriff's taxes charged, credited, and paid as of April 22, 2005, in conformity with the modified cash basis of accounting.

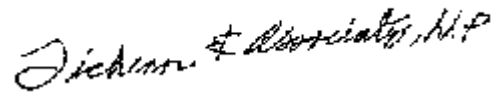
In accordance with Government Auditing Standards, we have also issued our report dated September 29, 2005, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable John D. Trisler, Mercer County Judge/Executive
Honorable Ralph Anderson, Mercer County Sheriff
Members of the Mercer County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in cursive script that reads "Tichenor & Associates, LLP".

Tichenor & Associates, LLP

Audit fieldwork completed -
September 29, 2005

MERCER COUNTY
RALPH ANDERSON, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2004 TAXES

April 22, 2005

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 668,479	\$ 1,458,550	\$ 2,347,808	\$ 1,081,120
Tangible Personal Property	45,143	97,887	126,609	452,310
Intangible Personal Property				133,463
Increases Through Exonerations	860	1,782	1,792	1,763
Franchise Corporation	64,375	166,906	270,535	
Limestone, Sand, and Mineral Reserves	58	146	326	94
Bank Franchises	48,871			
Penalties	4,402	9,722	14,205	7,293
Adjusted to Sheriff's Receipt	71	203		51
Gross Chargeable to Sheriff	<u>\$ 832,259</u>	<u>\$ 1,735,196</u>	<u>\$ 2,761,275</u>	<u>\$ 1,676,094</u>
<u>Credits</u>				
Exonerations	\$ 3,927	\$ 8,433	\$ 15,068	\$ 14,203
Discounts	11,462	22,671	36,499	26,609
Delinquents:				
Real Estate	14,493	32,215	42,438	23,439
Tangible Personal Property	900	2,099	2,062	2,909
Intangible Personal Property				1,232
Uncollected Franchise	10	22	28	
Total Credits	<u>\$ 30,792</u>	<u>\$ 65,440</u>	<u>\$ 96,095</u>	<u>\$ 68,392</u>
Taxes Collected	\$ 801,467	\$ 1,669,756	\$ 2,665,180	\$ 1,607,702
Less: Commissions *	34,350	57,775	106,607	68,615
Taxes Due	\$ 767,117	\$ 1,611,981	\$ 2,558,573	\$ 1,539,087
Taxes Paid	766,576	1,610,760	2,556,496	1,538,196
Refunds (Current and Prior Year)	541	1,221	2,077	891
Due Districts or (Refund(s) Due Sheriff) as of Completion of Fieldwork	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

*See Page 4

The accompanying notes are an integral part of this financial statement.

MERCER COUNTY
RALPH ANDERSON, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2004 TAXES
April 22, 2005
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	3,663,101
4% on	\$	2,665,181
1% on	\$	405,823

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT

April 22, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of April 22, 2005, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT
April 22, 2005
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2004. Property taxes were billed to finance governmental services for the year ended June 30, 2005. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 5, 2004 through April 22, 2005.

Note 4. Interest Income

The Mercer County Sheriff earned \$2,985 as interest income on 2004 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Mercer County Sheriff collected \$30,481 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Mercer County Sheriff collected \$1,005 of advertising costs and \$2,942 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2004 taxes, the Sheriff had \$2,982 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

COMMENT AND RECOMMENDATION

MERCER COUNTY
RALPH ANDERSON, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

As of April 22, 2005

INTERNAL CONTROL – REPORTABLE CONDITION:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties, which we consider to be a reportable condition. Due to the entity's diversity of official operations, small staff size, and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We recommend the Sheriff implement some compensating controls to offset the weakness in the internal control structure.

- Cash receipts by mail should be received and recorded by someone separate from the duties of handling and/or posting cash receipts to the ledger. At a minimum, only one person should be designated to receive and open mail. The Sheriff could greatly increase the level of compensating controls by requiring mandatory vacations and performing surprise cash counts.
- The Sheriff should periodically, agree daily tax collection totals to receipts ledger and deposit slip and agree monthly tax reports to receipts ledger. The Sheriff should document this review by initialing and dating the bank deposit, monthly tax reports and receipts ledger.
- Two people should sign all disbursement checks, one being the Sheriff. The Sheriff should periodically examine tax distributions prepared by another employee. The Sheriff should document this review by initialing and dating the tax distribution sheets. The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipt ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.

County Sheriff's Response: I understand the segregation of duties and we will continue to work on this problem to improve it.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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The Honorable John D. Trisler, Mercer County Judge/Executive
Honorable Ralph Anderson, Mercer County Sheriff
Members of the Mercer County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Mercer County Sheriff's Settlement - 2004 Taxes as of April 22, 2005, and have issued our report thereon dated September 29, 2005. The Sheriff prepares his tax settlement in accordance with the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Mercer County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we notice a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

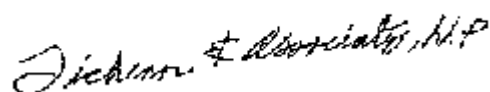
Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Mercer County Sheriff's Settlement - 2004 Taxes as of April 22, 2005 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Tichenor & Associates, LLP".

Tichenor & Associates, LLP

Audit fieldwork completed -
September 29, 2005

